

Department of Legislative Services
 Maryland General Assembly
 2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 722 (Delegate Qi, *et al.*)
 Economic Matters

Corporations and Associations - Annual Reports - Filing Fees

This bill exempts business entities from paying the filing fee required with the submission of an annual report to the State Department of Assessments and Taxation (SDAT) if: (1) the annual report is filed electronically; or (2) the business entity does not report any personal property for which property tax is owed. **The bill takes effect July 1, 2022, and is applicable to annual reports due on or after April 15, 2023.**

Fiscal Summary

State Effect: General fund revenues decrease by \$60.3 million in FY 2023 and by \$70.1 million in FY 2027. Expenditures are not directly affected.

(\$ in millions)	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF Revenue	(\$60.3)	(\$63.3)	(\$65.8)	(\$68.5)	(\$70.1)
Expenditure	0	0	0	0	0
Net Effect	(\$60.3)	(\$63.3)	(\$65.8)	(\$68.5)	(\$70.1)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Business entities in the State are required to file an annual report along with a reporting fee with SDAT by April 15, regardless of whether the business owns property, generates income, or has conducted business activity in the State during the preceding year. Failure to file the annual report may result in the business entity losing the right to conduct business in Maryland. **Exhibit 1** identifies the amount of the report fee that each legal entity is required to pay.

Exhibit 1 Annual Reporting Fee Requirement

<u>Business Entity</u>	<u>Fee</u>	<u>Business Entity</u>	<u>Fee</u>
Stock Corp	\$300	Domestic Statutory Trust	\$300
Nonstock Corp	0	Foreign Statutory Trust	300
Foreign Insurance Corp	300	Real Estate Investment Trust	300
Foreign Interstate Corp	0	Certified Family Farm	100
Limited Liability Company	300	Sole Proprietorship	0
Limited Liability Partnership	300	General Partnership	0
Limited Partnership	300	Amended Return	0

Source: Department of Legislative Services

State Revenues: The bill reduces general fund filing fee revenue in two ways: (1) exempting business entities that file the annual report electronically; and (2) exempting business entities that do not report any personal property. **Exhibit 2** shows the total effect of the bill on general fund revenues.

Filing Fee Exemption for Electronic Filing

General fund revenues decrease by \$41.4 million in fiscal 2023 and by \$57.1 million in fiscal 2027 for those business entities that opt to file the annual report electronically, as shown in Exhibit 2. This estimate is based on the current general fund revenue forecast and assumes that 60% of business entities will file annual reports electronically in fiscal 2023. The percent of business entities filing electronically will increase to 75% by fiscal 2026.

Exhibit 2
Annual Report Filing Fee Revenue Decrease
(\$ in Millions)

<u>Fiscal Year</u>	<u>Electronic Filing</u>	<u>No Personal Property</u>	<u>Total Revenue Decrease</u>
2023	(\$41.4)	(\$18.9)	(\$60.3)
2024	(46.2)	(17.1)	(63.3)
2025	(50.9)	(15.0)	(65.8)
2026	(55.8)	(12.8)	(68.5)
2027	(57.1)	(13.0)	(70.1)

Source: Board of Revenue Estimates; State Department of Assessments and Taxation; Department of Legislative Services

Filing Fee Exemption for Having No Personal Property

General fund revenues decrease by an additional \$18.9 million in fiscal 2023 and by \$13.0 million in fiscal 2027 for those business entities that do not report any personal property on their annual report, as shown in Exhibit 2. This estimate is based on the current general fund revenue forecast and assumes that 68.6% of business entities that file an annual report do not have personal property.

The estimates also account for Chapters 323 and 324 of 2016 that established the Maryland Small Business Retirement Savings Program and Trust that requires specified private-sector employers to make the program available to their employees. The legislation waives the annual filing fee collected by SDAT for a corporation or business entity that participates in the program or otherwise offers a retirement savings arrangement for its employees. The Budget Reconciliation and Financing Act of 2019 delayed the implementation of the program until fiscal 2022; however, the Board of Revenue Estimates December 2021 forecast assumes that implementation of the program will begin July 1, 2022. As such, the current revenue forecast assumes that filing fee revenues will be reduced by approximately 35% beginning in fiscal 2023 as a result of businesses enrolling in the program. To the extent that variations occur in the number of business entities paying the filing fee each year, the effect on general fund revenues will vary accordingly.

Small Business Effect: All business entities formed, qualified, or registered to do business in Maryland are required to file an annual report with SDAT every year. This bill eliminates

annual filing fees that some business entities are required to pay to maintain their “good standing” status with the State.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): State Department of Assessments and Taxation; Board of Revenue Estimates; Department of Legislative Services

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